California Debt and Investment Advisory Commission "Revealing OPEBs In Your Financials: Where the Rubber Meets the Road"

California Case Studies:

Peralta Community College District

Alameda County, California

$150,000,000 2005 OPEB (Other Post-Employment Benefits) Bonds

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Vice Chancellor for Budget and Finance

September 25, 2006

Background

Overview of the District’s OPEB

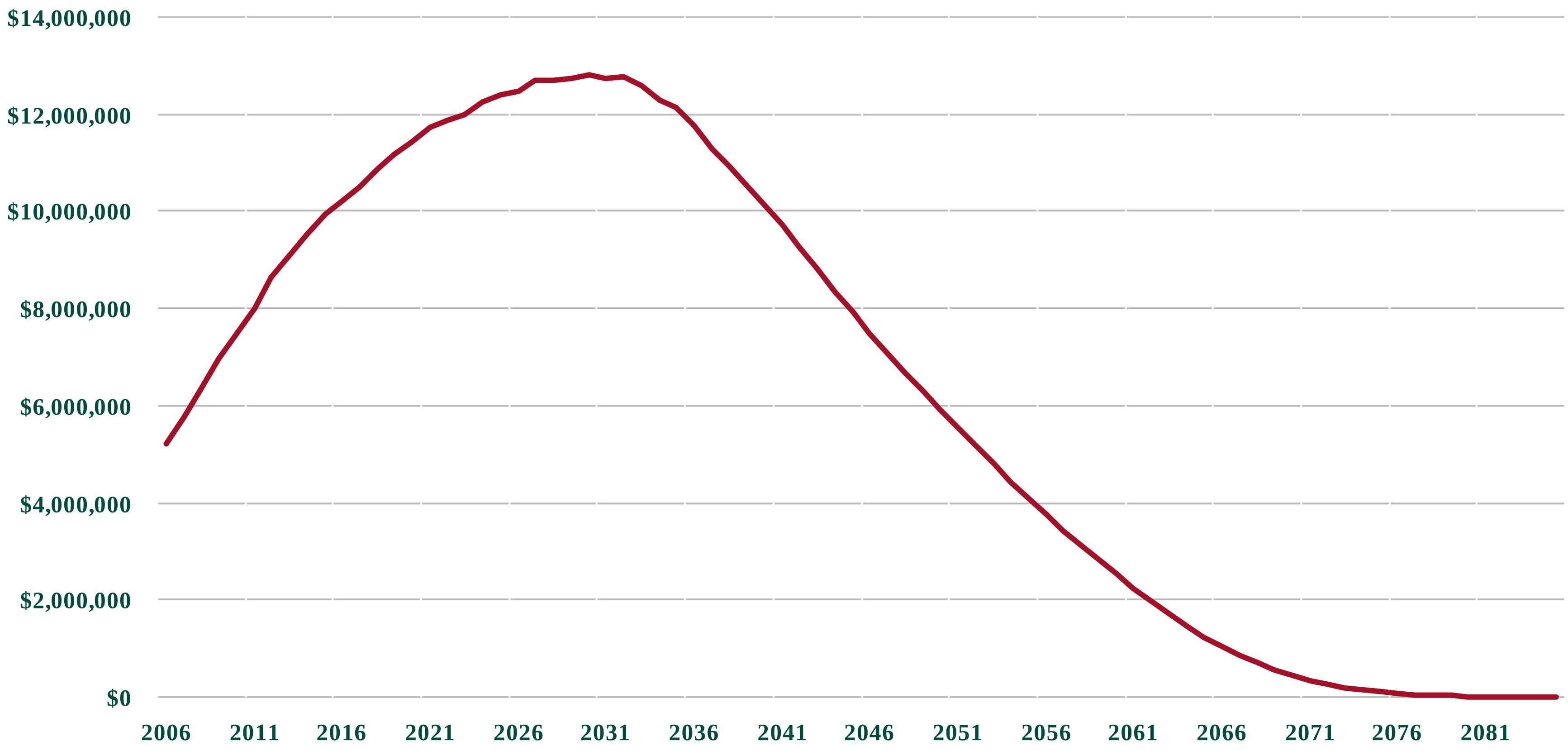
Unfunded OPEB liability poses serious financial risk to the District

- Previous agreements provide qualifying employees and their families lifetime healthcare insurance
- Although benefit has been eliminated to new employees, a significant number of retirees and current employees hired before discontinuation still qualify
- Funded on a “pay-as-you-go” basis
- Estimated net present value of benefits ranges from $132 million (@ 7%) to $196 million (@ 4.5%)

Funding the existing OPEB obligation was a key factor in securing labor agreements to discontinue future OPEB for new hires

Projected Pay-as-You-Go Annual Costs

Annual costs projected to double in 10 years



Source: Bartel Associates, LLC.

Challenges

Challenges

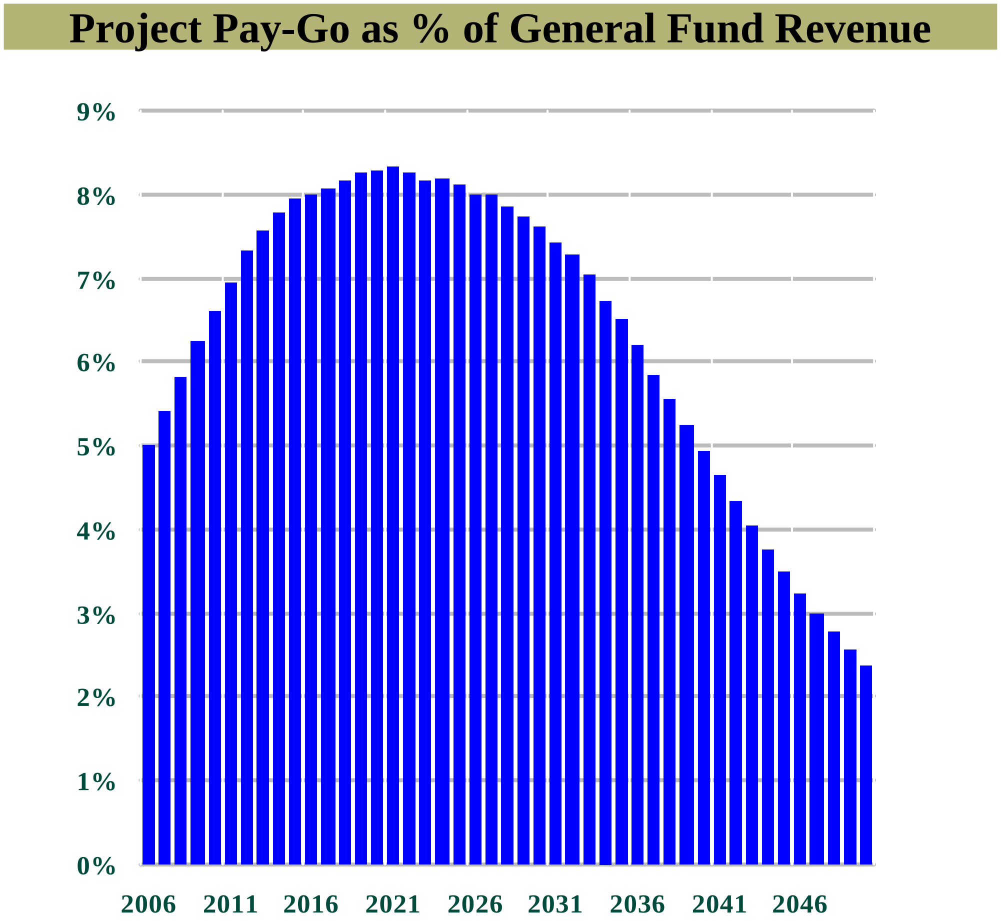
Because of unfunded OPEB, the District faced four challenges

- Increased Encroachment on General Fund
- GASB 45 (Governmental Accounting Standards Board) Compliance
- Bond Rating Agency Concerns
- Public Relations / Political Fallout

Increased Encroachment on General Fund

Projected Pay-Go as % of General Fund Revenue*

- Retiree health benefits accounted for 5.00% of general fund revenues in 2005
- If “pay-as-you-go” continues,
  they will rise to
  nearly 8.50%
  in less than 15 years



* *Assuming 2% GF revenue growth.*

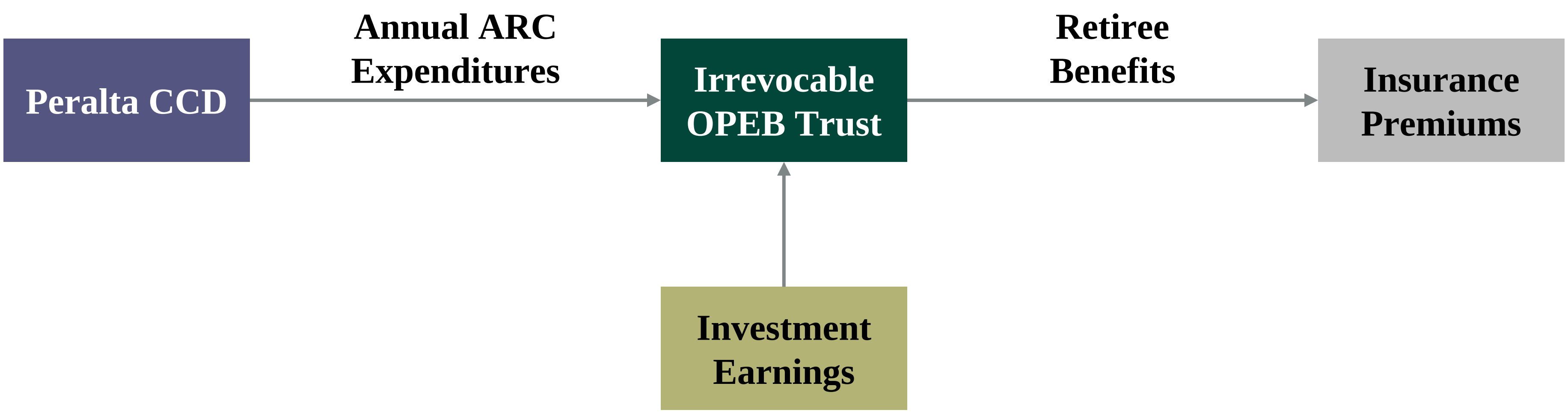
GASB 45 Compliance

GASB Statement 45 is to be implemented by 2007

- ***GASB 45 requires:*** Actuarial valuation of total OPEB liability every 2 years
- ***GASB 45 requires:*** Calculation of ***Annual Required Contribution ("ARC") –*** amortized cost of unfunded liability plus benefits earned in current year
- District's 2006 – 2007 ARC is calculated at **$13,243,000**

GASB 45 Compliance

GASB 45 envisions creation of irrevocable OPEB Trust



- GASB 45 ***<u>suggests</u>*** but does not require this funding method
- Creation of an irrevocable trust may not be in District's best interests
- Funding of the ARC would raise District's 2006 – 2007 expenditures by over 250% thereby eliminating entire General Fund reserve

Alternatives Considered

Most alternatives were deemed unacceptable

- **Alternative #1:** Ignore it
  - Increased risk of future financial pressure
- **Alternative #2:** Eliminate the benefit
  - Labor issues and potential litigation
- **Alternative #3:** Fund the ARC
  - Financially impossible
- **Alternative #4:** Refinance the benefit with OPEB Bonds

OPEB Bonds offered the District the only acceptable alternative

OPEB Bond Overview

OPEB Bond Legal and Security Features

Legal structure was approved by Court; security is widely accepted by the Bond Market

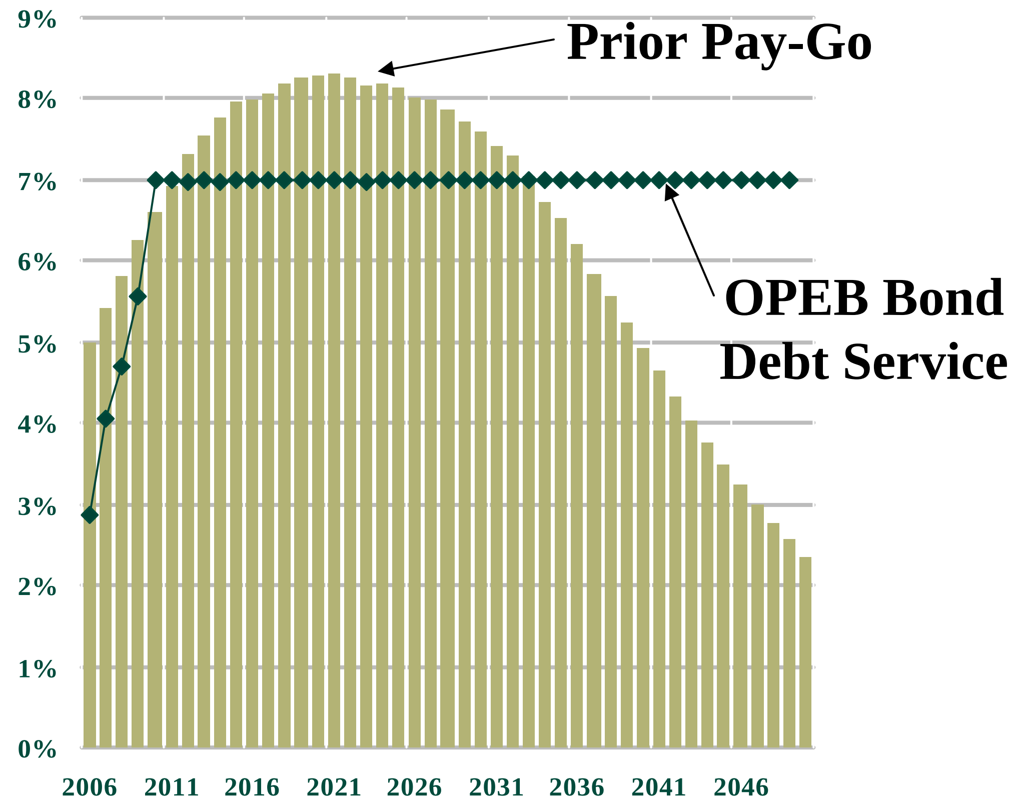
- District’s financing received a judicial validation judgment from Alameda Superior Court on November 7, 2005
  - No voter approval required – refinancing an existing obligation
  - Legal debt of the District payable from all legally available sources
- “***Limited Obligation Bond***" security structure mirrors commonly issued Pension Obligation Bonds
  - No additional taxing authority

Annual OPEB Bond Payments

Projected OPEB payments are level as % of Revenues*

- OPEB Bond repayment structured to remain level at 7.0% of General Fund Revenues starting in 2011

Retiree Health Benefits as % of General Fund

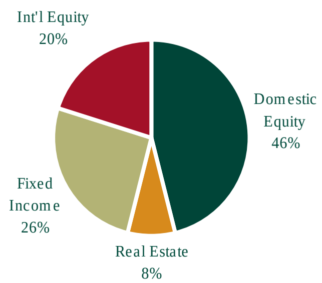


** Assumes 2.5% annual growth in General Fund Revenues.*

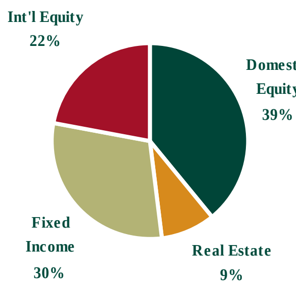
Retiree Health Benefit Program Reinvestment Strategy

OPEB Bond funds to be professionally invested in a CalPERS / ACERA-based Asset Allocation Model

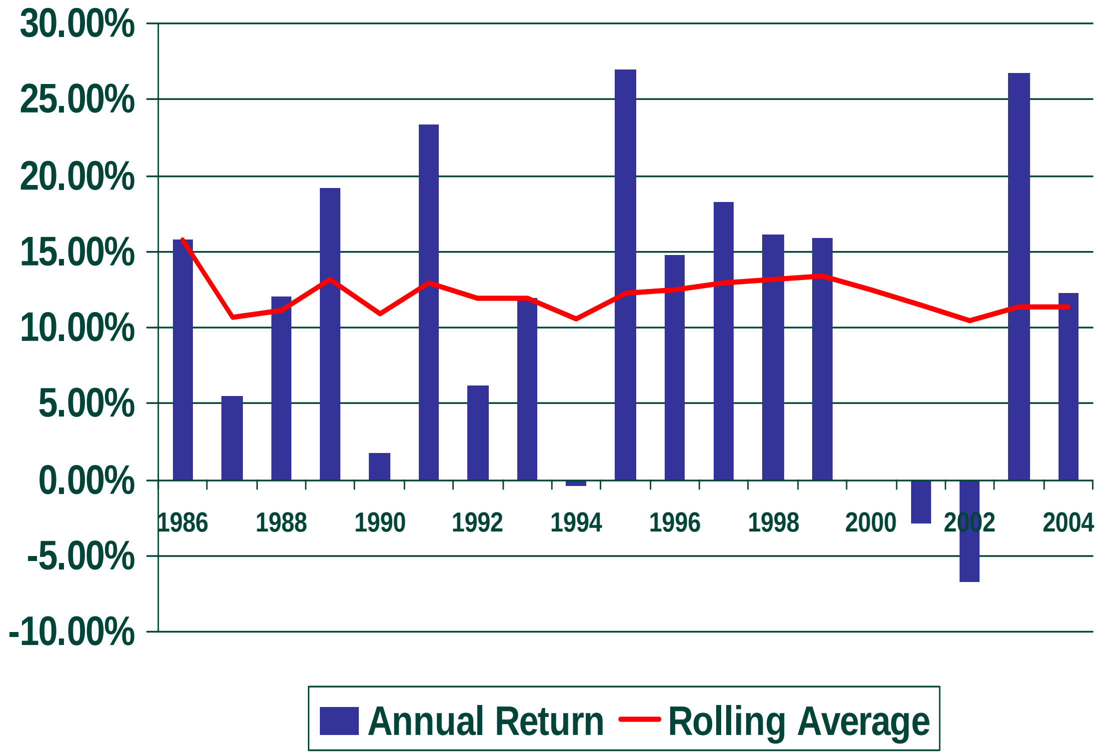
CalPERS Allocation



ACERA Allocation



CalPERS Returns 1986 – 2004



Market Acceptance

OPEB bond structure accepted in taxable bond market

"By virtue of this transaction the district anticipates that it will maintain its retiree health care costs at a constant (percentage) of budget through the 2049 final maturity of bonds as opposed to ***experiencing an increase in such cost to more than 8%… over the next 15 years.***"

Standard & Poor's
December 9, 2005
(emphasis added)

Bond Attributes

- Rated A+ (S&P)
- AAA Insured (FGIC)
- TIC = 5.58%
- Initial offering 4x oversubscribed
- Global investor base